Impact of the IBBEA on the Structure of the U.S. Bank System: 1993-2003

Albert E. DePrince, Jr *
Middle Tennessee State University, Murfreesboro, TN

Abstract

The passage of the Interstate Banking and Branch Efficiency Act (IBBEA) of 1994 streamlined the consolidation process that had been underway since the formation of the first regional compact in 1982. This study shows that in the IBBEA's aftermath, bank holding companies streamlined operation by consolidated bank charters within the holding companies; banks of mammoth size quickly emerged; concentration increased at that national level and bank size grew; and when segregating banks into five asset sizes, the consolidation among banks over the last 10 years came largely at the expense of the number of the nation's smallest banks. The study also reports on forward-looking simulations that point to continued losses in the number of small banks.

Key words: Banking; Financial Institution; Banking Legislation

JEL category: G21

*Albert E. DePrince, Jr., Professor Department of Economics and Finance, Middle Tennessee State University, Murfreesboro, TN 37132, phone: 615-898-5995, fax: 615-898-5596, email: deprince@mtsu.edu

Impact of the IBBEA on the Structure of the U.S. Bank System

Introduction

Passage of the Interstate Banking and Branch Efficiency Act (IBBEA) of 1994 streamlined the consolidation process that had been underway since the formation of the first regional compact in 1982. Banks and bank holding companies of mammoth size quickly appeared, while the number of small banks disappeared at a rapid rate in the IBBEA's aftermath. This paper assesses the effects of consolidation within the banking industry first on its structure during the 1993—2003 timeframe and goes on to offer a view of the changes that may lie ahead over the next 10 years.

The Changing Structure of Banking

This section presents an overview of the general structural change in banking between 1993 and 2003. It covers three areas. The first is the consolidation in bank charters within multi-bank holding companies between 1993 and 2003. This consolidation was made possible through the IBBEA. The second quantifies the increased concentration among banking institutions between 1993 and 2003. The third area is the evolving relationship between large and small banks over the 1993—2003 span.

The IBBEA, Bank Holding Companies, and the Consolidation of Bank Charters

Prior to the passage of the IBBEA, interstate banking was possible through the reciprocity clause of the Bank Holding Company Act. Through it, banks could affiliate with banks in other states through a bank holding company structure—provided that both states passed legislation allowing a holding company in the other state to acquire a bank within its borders. The holding company had to keep separate bank charters for each of the acquired banks. Such institutions were thus termed multi-bank holding companies. Additionally, limits on intrastate branching often required affiliation among banks with a state through a holding company structure.

Of all the banks present in 1993, Norwest Bancorp made the greatest use of separate bank charters. It owned 84 banks spread among 13 states. Numerically, the largest number of banks owned by Norwest was in Colorado, where the parent owned 40 separate banks. By 2003, Norwest had merged with Wells Fargo, and the surviving institution has 23 banks headquartered in 16 states with average assets for the year of $385 billion.[1]

The banking institution that fought the hardest for the IBBEA was NationsBank under the leadership of Hugh McCall. In 1993, NationsBank owned 13 banks in 11 states. This may also be the bank that most aggressively consolidated bank charters with the full implementation of the IBBEA in July 1997. To fully understand the extent of the consolidation of bank charters, readers should note that in 1998, NationsBank and Bank of America merged (Federal Reserve System, 1998). At year-end 2003, the combined entity (the survivor took the name Bank of America) owned five banks headquartered in five states with average total assets of $657 billion. This is all the more impressive when one considers that in 1993 Bank of America owned 14 banks headquartered in 10 states. Thus the two holding companies had a combined total of 27 banks headquartered in 18 states in 1993 with combined assets of $330 billion.[2]

Table 1 summarizes the holding company structure for the 25 largest bank holding companies in 1993 and also for 2003.[3] For each holding company, the table reports the number

---

[1] Call report data were used to generate this information.
[2] This differs from the 21 states obtained by summing the data in Table 1, due to overlaps in three states.
[3] Generating this table was a complicated task. The total assets of the holding company were generated by a pivot table in which assets were summed over bank holding companies using the holding company ID number. The

of states in which it has at least one bank charter (i.e., a bank headquartered in that state) as well as the total number of banks owned by the holding company. As one can see, the reliance upon multiple charters has shrunk dramatically. The one interesting feature is that Norwest remains the institution that relies most heavily on separately chartered banks. It stands out with 23 banks compared with the next largest, which is Citibank with eight banks.

Banking Concentration

As expected, concentration increased over the 1993—2003 sample period. To illustrate this, the Herfinddahl-Hirschmann Index (more commonly known as HHI) is used. Briefly, this index is equal to the sum of the squared market shares of all banking institutions within a given marketplace. The larger the index value, the more highly concentrated is the market. For example, if a market had one bank, its HHI would be 10,000. If a market has 10 banks of equal size, the HHI would be 1,000.

The Federal Reserve uses the HHI as a test of concentration in local markets when evaluating proposed acquisition by a bank. An index above 1,800 is generally considered concentrated. If a merger would boost the HHI above that level or increase the HHI by 200, the Federal Reserve would give the market closer scrutiny (Department of Justice). Also, if a market was already above that level and pushed higher by a proposed merger, closer scrutiny by the Federal Reserve is warranted. Typically, divestitures within local markets are needed in order to mitigate the increased concentration as a condition of the approval of the acquisition.

The market used by the Federal Reserve in its analysis is a locally defined geographic market. Thus, increased concentration is an issue for a within-market merger but not for a

---

number of states in which a holding company had a bank headquartered was generated by a two-step pivot table. In the first pivot table, states in which a holding company had a headquartered bank were identified. The second pivot table used information from the first and did a count of states in which each holding company had at least one bank headquartered. The number of banks within each holding company was obtained through another pivot table in which a count of bank ID numbers was made against holding company ID numbers.

market-widening merger. The latter would give the acquiring institution access over a wider geographic area.

To provide an understanding of the process, it is useful to note several mergers, some part of are within-market mergers. For example, in First Union's 1997 acquisition of Signet, the Federal Reserve found that the two institutions competed in 13 markets in a three-state area. The merger was found to have no anticompetitive effect in 10 of those markets, and First Union voluntarily committed to divesting four branches in the other three markets (Federal Reserve System, 1997). The latter was sufficient to meet the Federal Reserve's concern over anti-competitive effects.

Increased concentration is not an issue with market-widening mergers. Even so, as institutions expanded geographically under the terms of the IBBEA, there were within-market aspects to many of those mergers. For example, the 1996 merger of NationsBank and Boatmans Bancshares Corporation was largely a market-widening merger. However, there was an overlap in five markets, and an increased concentration in two of those markets. To deal with the latter, NationsBank voluntarily agreed to divestitures in those two markets (Federal Reserve System, 1996).

Similarly, the acquisition of FleetBoston Financial Corporation by Bank of America in early 2004 was seen as a market-widening acquisition and gave Bank of America access to the New England area. In fact, there was an overlap of markets in Metropolitan New York and northern New Jersey, and in three local markets in Florida. The New York—New Jersey market was unconcentrated, and the Federal Reserve concluded that the change in the HHIs in the three Florida markets did not represent a material, anticompetitive effect. Thus, the merger was approved without any divestitures (Federal Reserve System, 2004A).

In contrast to the typical use of the HHI, this study uses the HHI to measure banking concentration at the national level. Admittedly, some may argue that this is an inappropriate use of the HHI. Nonetheless, it does provide a sense of the structural change that occurred between 1993 and 2003. Aggregating bank call report data up to the holding company level, this study found that the HHI was only 132 in 1993 but rose to 310 in 2003. While neither is alarming from an antitrust perspective, this does show that banking in 2003 was more concentrated than it was in 1993.

Even simple concentration ratios tell the same story. From the same call report data, the top five bank holding companies represented 20 percent of total assets in 1993, while in 2003 the five largest holding companies logged 35 percent of bank assets.

Congress was well aware of the possibility of increased national concentration stemming from the IBBEA. In response, the Bank Holding Company Act was also amended to prohibit the Federal Reserve from approving an acquisition that would give the institution control over more than 10 percent of the deposits in the U.S. The amendment does not prevent an institution from moving above the 10 percent cap through internal growth. This deposit cap and the exception to it are summarized in each order issued by the Federal Reserve approving acquisition of a bank by a bank holding company. As an illustration, readers are referred to the order approving the merger of BankAmerica Corporation and FleetBoston Financial Corporation (Federal Reserve System, 2004A). Additionally, the act does not prevent an institution from increasing its control over assets by funding a greater proportion of its assets through nondeposit liabilities

Relationship between Banks of Different Asset Size

This section looks at the evolution of the relative importance of banks of various sizes, both in terms of the number of banks and also in their assets. The first task was to develop the asset class sizes. The first part of this section summarizes the methodology used to generate five asset size class as well as the resulting size of each class. The next part looks at the relative importance of banks in the various asset categories, based on the number of banks and the assets held by the banks in each asset category. In all cases, total average annual assets are used.

Separating banks into asset size classes is a common approach in assessing shifts in relative importance of banks asset size. For example, the Federal Deposit Insurance Corporation (FDIC) reports various performance measures for banks by asset classes in its Quarter Banking Profile. That report, however, keeps the ranges fixed for those asset classes from year to year. These fixed ranges raise a serious question regarding the usefulness of the results when a long sample period, such as this study's sample period, is under examination.

To deal with this problem, an approach similar to the approach laid out in the Financial Modernization Act, used to define a community financial institution, is employed. In it, a community bank (or a community financial institution or CFI using the act's terminology) is an institution with average total deposits over the proceeding three year of no more than $500 million. Each subsequent year, the asset cap is adjusted upward by the growth in the Consumer Price Index for All Urban Consumers unadjusted for seasonal variation for the previous year (Federal Registry, 2000). The cap for each year is published in the Federal Registry, early in the year, along with the inflation rate used in the adjustment. The official asset caps for 2000—2003 (Federal Registry 2001, 2002, and 2003) are reported in Table 2. The same methodology was used to back-estimate the asset caps for 1993—1999. These data are also reported in Table 2. Thus, the asset levels defining CFIs for the full 1993—2003 sample period are consistent.

The next step was to define the asset ranges for other classes of banks. Here, there is no industry standard on asset ranges; hence some judgment was involved. It was decided to keep the

FMA's definition of community banks as the definition for the nation's smallest institutions. The next step was to set asset ranges above that. The approach began with the notion that there are probably institutions with assets above $500 million that are also community-based in their business lines, and at least some studies set the upper limit for community banks at $1,000 million (Kahn, Schroeder, and Weiner; Gunther and Moore). Thus, a range of $500 million to $1,000 million for 2000 was selected for the group called large community banks. The upper limit for this asset class was adjusted forward and backward from 2000 according to the same methodology used to adjust the upper limit for the CFIs.

Next, the asset level for the nation's largest banks was set. These are called mega-banks in this study. They would be small in number but would have a large portion of the industry's total assets. In setting the minimum asset level for this class, some experimentation was involved to assure that there was some minimum number of institutions in this class throughout the same period. Based on the numerical analysis, it was decided to set the minimum asset level for mega-banks at $75,000 million in 2000. This level was adjusted forward and backward from 2000 according to the same methodology used to adjust the upper limit for the CFIs and the large community banks.

Two other classes were established. A group called regional banks was given an asset level of $1,000 million to $10,000 million in 2000. A group termed large banks was given an asset range of $10,000 million to $75,000 million. Again, the same methodology was used to adjust those levels forward and backward from 2000. Results for all asset classes are reported in Table 2.

Using the asset class ranges in Table 2, Table 3 reports the evolution in the relationship between the various asset classes over the 1993—2003 span. As can be seen, there were 11,563 bank charters in 1993; by 2003, consolidation pushed the number down to 8,254.[4]

Separately, mega-banks grew from five in 1993 where the minimum asset size was $63,287 million to 11 in 2003 with a minimum asset size of $80,762 million. The combined total of (1) large, (2) regional, and (3) large community banks showed very little change between 1993 and 2003 (807 versus 803), though there was some shuffling among the three asset classes. The vast bulk to the consolidation fell on the nation's smallest banks, falling from 10,750 to 7,440 over the 1993—2004 period. The drop in the number of CFIs is probably attributable to (1) asset growth that pushed them into the next asset class and (2) acquisition of small banks by other small banks that when combined exceed the asset definition of CFIs or by larger banks. The reduction in CFIs from these two forces obviously exceeded the formation of new CFIs via new bank charters.

In terms of shares, large banks still represent a very small portion of banks, 0.13 percent compared with .05 percent in 2003. However, there was a considerable massing of assets in this group. In 1993, the six mega-banks held roughly 16 percent of bank assets, while in 2003, the 11 mega-banks held around 43 percent of bank assets. In terms of average assets per bank, this category jumped from $111 billion per bank in 1993 to $294 billion per bank in 2003.

The large, regional, and large community banks each inched up as a percent of total banks, and combined their share of total banks rose from around seven percent of banks to nearly 10 percent by 2003. This should not be surprising since their number was relatively stable and

[4]Data in this table are at the bank level, not the holding company level. Thus, a multi-bank holding company would have several entries in this table or one for each of its subsidiary banks.

the total number of banks fell. Finally, the CFIs fell from 93 percent to 90 percent of all banks over the same period.

A somewhat different story unfolds when looking at asset shares. As noted earlier, the country's very biggest banks gained significantly in asset shares over the study's sample period. Also, as Table 3 shows, the shares in large banks inched up a bit. However, the shares at regional banks, large community banks, and CFIs all fell over the 1993—3003 span. The largest share loss was experienced by CFIs; the next largest was experienced by the regional banks.

Looking Ahead

Section 3(d) of the Bank Holding Company Act limits the control of any one institution to 10 percent of insured deposits. Unless modified, this will likely limit the national concentration of any one institution. However, there is no limit to the number of institutions that may move to the 10 percent deposit cap except that imposed by the marketplace. Until the financial markets question the wisdom of large banking institutions, the trend toward an increasing number of very large banking institutions will continue.

Thus, it is likely that concentration will rise as mega-banks move toward the 10 percent deposit cap and as large banks move into the mega-bank class through mergers. There will likely continue to be a shift in asset shares to the mega-banks and the large banks at the expense of the regional and large community banks and the CFIs.

To gain some insight into this, two scenarios are reported in Tables 5A and B. These tables draw on summary information reported in Table 4. Table 4 summarizes the shifts that have been observed between 1993 and 2003, while Tables 5A and B summarize possible shifts that may occur from 2003 through 2013.

Scenario 1: Mild Increase in Mega and Large Banks

Scenario 1, reported in Table 5A, has several assumptions.

- ► There is a mild increase in the number of mega-banks (four) and large banks (seven) stemming from mergers and acquisitions. Some would be mergers among big banks, but most of it would come about through widespread acquisition of smaller banks by the larger banks—much the same as the past 10 years.
- ► Asset growth per bank is also assumed to be mild. In this scenario, it is assumed that there is a net increase of four mega-banks and seven large banks.
- ► Inflation, used to adjust the asset class levels, is assumed to average 2.25 percent per year, marginally less than the 2.47 percent per year over the 1993—2004 period.
- ► Asset growth for all banks is assumed to be an annual rate of 7.25 percent, marginally less than the growth over the 1993—2003 period.
- ► Asset growth per bank varies positively with the asset class. The larger the asset class, the higher is the presumed growth. This reflects competitive pressure by the larger banks to increase their asset size to garner the benefits of economies and synergies.

Given these assumptions, the net effect is shrinkage in the number of banks in the remaining asset class categories. This shrinkage is unavoidable, given the assumed 7.25 percent limit in the overall yearly growth of bank assets and the assumed asset growth of the mega and large banks. The largest simulated drop is among the CFIs, which is seen falling by 2,168 banks to 5,965 banks. These 2,168 banks are presumed to vanish through mergers among themselves or acquisition by larger banks. The scenario mimics the process seen over the past 10 years, except that the driving assumptions noted above are milder than actual developments over the 1993—2003 period, during which a net of 3,310 CFIs disappeared.

Scenario 2: Minor Increase in Number of Mega and ►Large Banks

Scenario two has many of the same assumptions as the first scenario with some key differences. These are noted below.

- ► There is a minor increase in the number of mega-banks (one) and large banks (three), stemming from mergers and acquisitions. Some would be due to mergers among big banks, but most of it would come about through widespread acquisition of smaller banks by the larger banks. Unlike Scenario 1, this scenario has fewer losses of regional banks and large community banks. This is due largely to the very minor increases in the number of large and mega-banks. Most of the loss of CFIs is attributed to their acquisition by regional and large community banks.
- ► Asset growth by the large banks is assumed to be stronger than that assumed in Scenario 1. The assumption is a far more competitive environment in asset gathering, which would put competitive pressure on the very smallest banks to find suitors and on the regional and large community banks to grow in size to more effectively compete with the very biggest banks.

It is interesting to note that results are about the same in terms of the eventual number of community banks. Their number falls by 2,247 banks to 5,987 CFIs.

Under either scenario, there will likely be a continued shrinkage in the number of small banks, termed CFIs in this study. In evaluating this conclusion, readers should note that results are sensitive to the assumed pace of industry-wide asset growth. In either scenario, an asset growth of a quarter of a percentage point faster than the assumed 7.25 percent per year changes the outlook to only minimal loss in the number of community banks in either scenario. The reverse also holds. A quarter of a percentage point slower growth, other things equal, would have a devastating effect on the number of CFIs.

Scenario two may be the more likely of the two. So far in 2004, the number of mega-banks has been reduced by one compared with 2003, thanks to the merger of BankAmerica and FleetBoston. Also, two large banks (Table 6) have been acquired. In one, J.P. Morgan Chase—a mega-bank—acquired Bank One Corporation (Federal Reserve System, 2004B; Kivat). In the second, Wachovia Corporation—a large bank—announced the acquisition of in June 2004 of South Trust Corporation (Boraks). Thus, there needs to be one graduate from the large bank category this year just to keep the number of mega-banks at 11. If one large banks moves up, this would require formation of two new large banks to keep their total of 71.

Mergers among the large and mega-banks will likely continue over the next 10 years. Along with that, there will be accompanying mergers of regional banks producing new large banks and large community banks becoming either acquirers or being acquired. Over the first half of 2004, 12 regional banks have been absorbed (Table 6), and 115 large community banks (not shown in Table 6) were absorbed. (See American Banker, August 10, 2004, for a listing of the top mergers by price over the first half of 2004.)

However, there may eventually be a limit to the mergers among the mega institutions thanks to the FMA's 10 percent national deposit cap. Already, Bank of America is bumping against it with 9.64 percent of domestic deposits (Heller). At this time, there seems to be little support for raising it among the other mega-banks (Heller), though as the mega-banks become bigger, there may be pressure to increase it. Whether Congress responds positively to such an initiative depends on the relative performance among banks of different sizes.

In Sum

Aside from changing the assumed rate of overall asset growth, the ongoing shrinkage in the number of CFIs can be stemmed in the years ahead only if (1) there is no further increase in the number of mega and large banks and (2) asset gathering by the big banks is weak. Such developments are unlikely. More probable is a combination of further increases in the number of large and mega-banks and in assets per bank. This combination would lead to an even more substantial shrinkage in the number of CFIs.

There is some good news, however. The shrinkage in the number of CFIs foreseen in these two scenarios comes about through acquisitions by large institutions or by mergers among themselves. It does not come about through failure of an institution and subsequent liquidation of a purchase and assumption by a healthy institution. Some may see this as good news for the remaining CFIs. Their relative role in nitch markets could increase as their numbers decrease, providing an opportunity for improved profitability among the remaining CFIs as the industry consolidates.

Unfortunately, this view may be illusionary. Community banks are presently less profitable than the larger banks. While community banks have higher net interest margins than smaller banks they now typically have higher noninterest expenses as a percent of assets and lower noninterest income as a percent of assets than larger banks. This can be easily seen in the any recent Quarterly Banking Profile (Federal Deposit Insurance Corporation). On balance, the higher noninterest expenses and lower noninterest income (as a percent of assts) more than offset the small banks' higher net interest margin. If there are fewer small banks, the remaining small banks may be better able to garner noninterest income, thus boosting their overall return on assets. However, the larger banks have come to recognize the importance of community banking, and pursuit of a community banking strategy by the larger banks could siphon some of the nitch CFI business away. Also, credit unions are becoming an increasingly serious competitive threat to CFIs. Thus, improved earnings from nitch businesses are far from certain. Attention now turns to an overview of the relative performance of banks by asset class.

Acknowledgements

This study was made possible through a Non-Instructional Assignment Grant provided by Middle Tennessee State University. The author thanks the university for its financial support of this research endeavor. Thanks also go to the Business and Economic Research Center of Middle Tennessee State University and to the Tennessee Bankers Association for acquisition of the various call report databases used in this study. Finally, thanks goes to Pamela Morris, my graduate assistant, for much of the data assembly in this study.

Selected References

Anonymous, Table: Bank and Thrift Merger Deals Announced in the First Half of 2004. American Banker, August 10, 2004

Boraks, David. 2004. "Wachovia Making Waves in Southeast: Deal to Acquire South Trust a Solidifier, Not Expansion Tool." American Bank. June 22.

Department of Justice. 2000. "Bank Merger Competitive Review – Introduction and Overview (1995)." September 2000. www.usdoj.gov/atr/public/guidelines/6472.htm#N_1_

Federal Deposit Insurance Corporation. 2004. Quarterly Banking Profile. First Quarter.

Federal Register. March 15, 2000. Volume 65, Number 51. p. 13867.

Federal Register. January 31, 2001. Volume 66, Number 21. p. 8402-8403.

Federal Register. January 3, 2002. Volume 2, Number 67. p. 327.

Federal Register. January 7, 2003. Volume 68, Number 4. p. 80-782.

Federal Reserve System. 2004A. "Order Approving the Merger of Bank Holding Companies." Bank of America Corporation and FleetBoston Financial Corporation. March 8.

Federal Reserve System. 2004B. "Order Approving the Merger of Bank Holding Companies." J.P. Morgan Chase & Company and Bank One Corporation. June 14.

Federal Reserve System. 1998. "Order Approving the Merger of Bank Holding Companies." BankAmerica Corporation and NationsBank Corporation. August 17.

Federal Reserve System. 1997. "Order Approving the Acquisition of a Bank Holding Company." First Union Corporation. October 14.

Federal Reserve System. 1996. "Order Approving the Merger of Bank Holding Companies." NationsBank Corporation and NB Holdings Corporation. December 16.

Gunther, Jeffrey W., and Robert R. Moore. 2004. "Small Banks' Competitors Loom Large." Southwest Economy. Federal Reserve Bank of Dallas. February.

Heller, Michelle. 2004. "Deposit Cap is One Fight B of A Peers May Sit Out." American Banker. September 13. p. .

Kahn, George A., Linda Schroeder, and Stuart Weiner. 2003. "The Role of Community Banks in the U.S. Economy." Economic Review. Federal Reserve Bank of Kansas City. Second Quarter.

Kiviat, Barbara. 2004. "Taking the Bait." Time. September 20. p. A20.

SNL Financial. 2004. "Deal Profile: Update: Going for the Gold (Banc)! Silver Acquisition to Make $671.5 Million Cash Purchase." SNL Interactive. http://www.snl.com/bank/archive/20040301.asp

Table 1
Top Holding Companies: Geographic Presence and Bank Charters

1993

Holdling Company	Average Assets of Banks $,000	Number of States with at Least One Bank Charter	Number of Banks
Citibank	196,505,240	7	10
Bank of America	180,360,094	10	14
NationsBank	149,774,825	11	13
Chemical Bank	131,886,043	4	8
JP Morgan	108,618,077	3	3
Chase Manahttan Bnak	95,157,639	6	6
Bank One	74,403,233	13	83
First Union	68,582,218	8	8
Bankers Trust	65,084,733	3	3
Bank of Delaware	49,655,550	7	10
Wells Fargo Bank	49,642,115	1	1
First Interstate Bank	48,958,800	13	16
First National Bank of Chicago	47,410,188	3	5
Bank of New York	47,083,009	4	4
Norwest Bank	41,760,673	13	84
Fleet Bank	40,544,486	7	8
Mellon Bank	38,749,004	4	4
Sun Bank	38,207,671	4	35
NBD Bank	36,521,834	5	8
Barnett Bank	36,119,361	2	32
Wachovia Bank	35,428,914	4	4
Republic Bank	34,483,795	3	4
Bank of Boston	34,393,779	5	8
First Fidelity Bancorporation	32,424,901	4	4
Key Bank	31,446,056	9	11

2003

Holdling Company	Average Assets of Banks $,000	Number of States with at Least One Charter	Number of Banks
J.P. Morgan Chase & Co.	667,940,447	3	3
Bank of America Corporation	657,305,615	5	5
Citigroup Inc.	604,528,480	6	8
Wells Fargo & Company	385,269,463	16	23
Wachovia Corporation	336,185,443	3	3
Bank One Corporation	299,828,892	4	5
Fleetboston Financial Corporatio	194,165,389	2	3
U.S. Bancorp	175,757,523	2	2
National City Corporation	136,912,517	5	7
SunTrust Banks Inc.	117,823,800	2	2
Lasalle Bank Corporation	100,478,290	2	2
BB&T Corporation	93,678,071	4	4
Fifth Third Bancorp	91,893,957	2	2
Bank of New York Company Inc.	88,919,076	3	3
HSBC USA Inc.	88,715,731	1	1
Merrill Lynch Bank	84,104,731	2	2
Keycorp	84,045,868	1	2
State Street Corporation	74,303,412	1	1
Citizens Financial Group Inc.	70,268,835	6	7
PNC Financial Services Group	63,860,475	2	2
MBNA Corporation	55,303,814	1	2
Comerica Incorporated	54,635,177	1	2
Southtrust Corporation	50,753,675	1	1
M&T Bank Corporation	48,966,778	1	2
Regions Financial Corporation	45,157,831	1	1

Note: the database utilized for 1993 contained the holding company number but not the bank holding company name. As a result, the dominant bank in the holding company was used as the holding company name.

Table 2
Asset Level Breakpoints Adjusted for Inflation

Year	CPI-U Inflation	Maximum Asset Size for Community Banks	Maximum Asset Size for Large Community Banks	Maximum Asset Size for Regional Banks	Maximum Asset Size for Large Banks	Minimum Size for Mega Banks
1993	3.0	422	844	8438	63286	63287
1994	2.7	433	867	8666	64994	64995
1995	2.7	445	890	8900	66749	66750
1996	2.6	457	913	9131	68485	68486
1997	3.3	472	943	9433	70745	70746
1998	1.8	480	960	9603	72018	72019
1999	1.5	487	975	9747	73098	73099
2000	2.6	500	1000	10000	74999	75000
2001	3.4	517	1034	10340	77549	77550
2002	1.9	527	1054	10536	79022	79023
2003	2.2	538	1077	10768	80761	80762

* Calculated based on the November-to-November increase in the CPI-U at the previous November
** As reported in various issue of the Federal Registry

Table 3
Relationship Among Bank Class Size

Number of Banks	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Mega-Banks	5	6	7	7	8	8	10	12	11	10	11
Large Banks	63	65	70	70	58	62	67	69	68	69	71
Regional Banks	394	406	412	382	341	360	358	334	329	333	334
Large Community banks	351	333	333	347	356	316	342	355	355	385	398
Community Banks	10,750	10,253	9,715	9,314	8,948	8,575	8,345	8,070	7,749	7,585	7,440
	11,563	11,063	10,537	10,120	9,711	9,321	9,122	8,840	8,512	8,382	8,254

Share of Total Banks	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Mega-Banks	0.04	0.05	0.07	0.07	0.08	0.09	0.11	0.14	0.13	0.12	0.13
Large Banks	0.54	0.59	0.66	0.69	0.60	0.67	0.73	0.78	0.80	0.82	0.86
Regional Banks	3.41	3.67	3.91	3.77	3.51	3.86	3.92	3.78	3.87	3.97	4.05
Large Community banks	3.04	3.01	3.16	3.43	3.67	3.39	3.75	4.02	4.17	4.59	4.82
Community Banks	92.97	92.68	92.20	92.04	92.14	92.00	91.48	91.29	91.04	90.49	90.14
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Total Assets	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Mega-Banks	604,941,362	780,353,149	926,272,576	1,087,080,703	1,449,659,481	1,743,051,780	1,953,371,655	2,397,165,384	2,693,970,256	2,810,064,508	3,238,720,920
Large Banks	1,083,396,751	1,165,855,047	1,300,994,482	1,446,579,980	1,508,723,170	1,668,928,291	1,735,796,917	1,772,579,948	1,865,200,355	1,993,175,325	2,141,686,703
Regional Banks	1,017,269,633	1,103,923,098	1,126,431,651	1,061,872,946	973,950,779	990,430,037	984,831,881	960,064,387	996,480,060	1,034,296,624	1,030,294,322
Large Community banks	207,374,823	201,561,038	204,938,385	216,013,624	230,630,488	206,332,116	227,584,563	241,471,510	247,244,082	276,544,758	297,836,229
Community Banks	838,490,521	837,825,801	821,550,246	821,054,479	811,550,132	816,907,626	831,356,110	834,881,907	855,091,523	893,839,631	934,486,762
	3,751,473,090	4,089,518,133	4,380,187,340	4,632,601,732	4,974,514,050	5,425,649,850	5,732,941,126	6,206,163,136	6,657,986,276	7,007,920,846	7,643,024,936

Share of Total Assets	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Mega-Banks	16.13	19.08	21.15	23.47	29.14	32.13	34.07	38.63	40.46	40.10	42.37
Large Banks	28.88	28.51	29.70	31.23	30.33	30.76	30.28	28.56	28.01	28.44	28.02
Regional Banks	27.12	26.99	25.72	22.92	19.58	18.25	17.18	15.47	14.97	14.76	13.48
Large Community banks	5.53	4.93	4.68	4.66	4.64	3.80	3.97	3.89	3.71	3.95	3.90
Community Banks	22.35	20.49	18.76	17.72	16.31	15.06	14.50	13.45	12.84	12.75	12.23
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 4
Summarizing Concentration Trends 1993-2003

	1993				
Asset Class	Asset Threshold Levels ($,000)	Number of Banks In Asset Class	Total Assets in Asset Class ($,000)	Average Assets per Bank by Class (,000)	Assets in Class as Percent of Total Assets
Mega Banks (Minimum Assets)	63,287	6	667,965,612	111,327,602	17.8
Large Banks	63,287	62	1,020,372,501	16,457,621	27.2
Regional Banks	8,438	394	1,017,269,633	2,581,903	27.1
Large Community Banks	844	351	207,374,823	590,811	5.5
Community Financial Institutions	422	10750	838,490,521	77,999	22.4
		11563	3,751,473,090	324,438	100.0

* Maximum Asset Level for the Class

	2003					2003 over 1993[@]			
Asset Class	Asset Threshold Levels ($,000)	Number of Banks In Asset Class	Total Assets in Asset Class ($,000)	Average Assets per Bank by Class (,000)	Assets in Class as Percent of Total Assets	Asset Threshold Levels	Number of Banks In Asset Class	Total Assets in Asset Class	Average Assets per Bank by Class
Mega Banks (Minimum Assets)	80,762	11	3,238,720,920	294,429,175	42.4	2.47	6.25	17.10	10.21
Large Banks*	80,762	71	2,141,686,703	30,164,601	28.0	2.47	1.36	7.70	6.25
Regional Banks*	10,768	334	1,030,294,322	3,084,714	13.5	2.47	-1.64	0.13	1.80
Large Community Banks*	1,077	398	297,836,229	748,332	3.9	2.47	1.26	3.69	2.39
Community Financial Institutions*	538	7440	934,486,762	125,603	12.2	2.47	-3.61	1.09	4.88
		8254	7,643,024,936	925,978	100.0		-3.31	7.38	11.06

* Maximum Asset Level for the Class

[@] At Compound Annual Rates

Table 5A
Outlook Small Banks Over Next 10 Years
Modest Increase in Concentration at Top End

	2013					2013 over 2003@			
Asset Class	Asset Threshold Levels ($,000)	Number of Banks In Asset Class	Total Assets in Asset Class ($,000)	Average Assets per Bank by Class (,000)	Assets in Class as Percent of Total Assets	Asset Threshold Levels	Number of Banks In Asset Class	Total Assets in Asset Class	Average Assets per Bank by Class
Mega Banks (Minimum Assets)	100,888	15	8,687,801,255	579,186,750	56.5	2.25	3.15	10.37	7.00
Large Banks*	100,888	78	4,213,576,148	54,020,207	27.4	2.25	0.94	7.00	6.00
Regional Banks*	13,452	275	1,255,685,636	4,566,130	8.2	2.25	-1.92	2.00	4.00
Large Community Banks*	1,345	325	343,068,869	1,055,597	2.2	2.25	-2.01	1.42	3.50
Community Financial Institutions*	673	5272	889,856,229	168,800	5.8	2.25	-3.39	-0.49	3.00
		5965	15,389,988,137	2,580,195	100.0		-3.20	7.25	10.79

* Maximum Asset Level for the Class

@ At Compound Annual Rates

Table 5B
Outlook for Concentration Over Next 10 Years
Minor Increase in Concentration at High End

	2013					2013 over 2003@			
Asset Class	Asset Threshold Levels ($,000)	Number of Banks In Asset Class	Total Assets in Asset Class ($,000)	Average Assets per Bank by Class (,000)	Assets in Class as Percent of Total Assets	Asset Threshold Levels	Number of Banks In Asset Class	Total Assets in Asset Class	Average Assets per Bank by Class
Mega Banks (Minimum Assets)	100,888	12	7,988,393,862	665,699,488	51.9	2.25	0.87	9.45	8.50
Large Banks*	100,888	74	4,452,983,287	60,175,450	28.9	2.25	0.41	7.59	7.15
Regional Banks*	13,452	333	1,595,225,112	4,790,466	10.4	2.25	-0.03	4.47	4.50
Large Community Banks*	1,345	375	415,392,942	1,107,715	2.7	2.25	-0.59	3.38	4.00
Community Financial Institutions*	673	5193	937,992,936	180,629	6.1	2.25	-3.53	0.04	3.70
		5987	15,389,988,137	2,570,601	100.0		-3.16	7.25	10.75

* Maximum Asset Level for the Class

@ At Compound Annual Rates

Table 6
Bank Mergers: First Half of 2004

Acquiring Institution	Asset Class	Acquired Institution	Asset Class
Bank of America. Charlott	Mega	FleetBoston Financial. Boston	Mega
J.P. Morgan Chase & Co. New York	Mega	Bank One Corp. Chicago	Large
Wachovia Corp. Charlotte	Mega	SouthTrust Corp. Birmingham, Ala.	Large
Citizens Financial Group Inc. Providence, R.I.	Mega	Charter One Financial Inc. Cleveland	Regional
SunTrust Banks Inc. Atlanta	Mega	National Commerce Financial Corp. Memphis	Regional
North Fork Bancorp. Melville, N.Y.	Large	GreenPoint Financial Corp. New York	Regional
Regions Financial Corp. Birmingham, Ala.	Large	Union Planters Corp. Memphis	Regional
National City Corp. Cleveland	Large	Provident Financial Group Inc. Cincinnati	Regional
BancWest Corp. Honolulu	Large	Community First Bankshares Fargo, N.D.	Regional
Sovereign Bancorp Inc. Philadelphia	Large	Seacoast Financial Services Corp. New Bedford, Mass.	Regional
Sovereign Bancorp Inc. Philadelphia	Large	Waypoint Financial Corp. Harrisburg, Pa.	Regional
Silver Acquisition Corp. Leawood, Kan.*	N/A	Gold Banc Corp. Inc. Leawood, Kan.	Regional
First Niagara Financial Group Inc. Lockport, N.Y.	Regional	Hudson River Bancorp Inc. Hudson, N.Y.	Regional
Associated Banc-Corp Green Bay, Wis.	Large	First Federal Capital Corp. La Crosse, Wis.	Regional
Huntington Bancshares Inc. Columbus, Ohio	Large	Unizan Financial Corp. Canton, Ohio	Regional

Source: American Banker, August 10, 2004; Time, September 20, 2004

* Silver Acquisition Corp, a private investor Group, will eventually convert the acquired bank to thirft charter (SNL Financial). Presumably,the there would be no violation of the prohibition of the ownership of a bank by a commercial firm under this arrangement.